

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	114.01	0.25	14.09	128.35	0.25	14.09	128.35	128.35
Personal Services	4,852,546	302,864	527,203	5,682,613	333,682	529,015	5,715,243	11,397,856
Operating Expenses	4,807,538	1,345,430	2,059,431	8,212,399	1,344,120	2,094,302	8,245,960	16,458,359
Equipment	47,351	25,000	0	72,351	25,000	0	72,351	144,702
Local Assistance	477,179,483	9,016,287	930,000	487,125,770	3,873,528	16,049,914	497,102,925	984,228,695
Grants	74,197,792	6,307,721	7,732,961	88,238,474	8,159,472	8,276,661	90,633,925	178,872,399
Total Costs	\$561,084,710	\$16,997,302	\$11,249,595	\$589,331,607	\$13,735,802	\$26,949,892	\$601,770,404	\$1,191,102,011
General Fund	480,885,526	9,453,712	2,537,064	492,876,302	4,329,991	17,681,377	502,896,894	995,773,196
State/Other Special	1,242,216	(156,222)	(152,083)	933,911	(156,191)	(152,114)	933,911	1,867,822
Federal Special	78,956,968	7,699,812	8,712,531	95,369,311	9,562,002	9,268,515	97,787,485	193,156,796
Proprietary	0	0	152,083	152,083	0	152,114	152,114	304,197
Total Funds	\$561,084,710	\$16,997,302	\$11,249,595	\$589,331,607	\$13,735,802	\$26,949,892	\$601,770,404	\$1,191,102,011

Agency Description

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. 20-3-106, MCA states that the Superintendent "... has the general supervision of the public schools and districts of the state." Section 20-7-301, MCA, names the Superintendent as "the governing agent and executive officer of the state of Montana for K-12 vocational education." The Office of Public Instruction (OPI) provides distribution of funding and services to Montana's school-age children and to teachers in approximately 500 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services.

Agency Narrative

The Office of Public Instruction's budget as presented would increase by \$50.6 million, including \$18.0 million from the general fund. FTE would increase by 14.34 over the fiscal 2000 level. The major budgetary issues are:

- ?? Continuance of the Improving Montana Schools Project, requiring \$2.2 million from the general fund
- ?? Expansion of available funding for a number of federal programs, including reduced class size and comprehensive school reform, and establishment of new federally-funded programs, including health education and advanced placement
- ?? An increase in direct school aid to elementary and high schools of 3.0 percent in fiscal 2003, at a cost of over \$14 million

Supplemental Appropriation Description

The Executive Budget tentatively includes the following supplemental appropriations in fiscal 2001:

Staff Payouts

The Executive Budget includes \$153,249 from the general fund for staff payouts resulting from the change in administration.

LFD ISSUE

This figure is based upon a worst-case scenario that includes the departure of all of the outgoing superintendent's personal staff. However, as the office actually anticipates little turnover, this figure will be adjusted. Since some turnover is anticipated in all agencies regardless of change in administration, the legislature may wish to consider requiring OPI to fund any payout costs from current operations.

Distribution to Schools -

As shown in the table below, this supplemental distribution consists of two requests:

- 1) \$8.9 million to meet statutorily-set spending amounts for BASE aid to school districts; and
- 2) an increase of \$1.5 million in the expenditure of state lands timber harvest monies for technology acquisition by school districts.

The BASE aid appropriation authority for the 2001 biennium was established by the 56th legislature in HB2, SB100 and HB4. The amounts authorized were based on estimates of the BASE aid components for each school district's budget, including estimates of taxable value and non-levy revenues. Because of legislated changes in these components, predictions of changes in districts' taxable value and districts' vehicle receipts were uncertain. Total costs were ultimately underestimated.

The Executive Budget also requests additional authority to spend timber harvest revenues in fiscal 2001. The amount requested is \$1,517,800. The biennial appropriation of timber harvest revenue to be spent on technology during the 2001 biennium was \$3.4 million. Timber harvest revenues available for expenditure during the 2001 biennium will be \$4.9 million.

Executive Recommended Legislation

Legislation will be submitted that implements the following proposals in the budget:

?? Increase the basic and per-ANB (Average Number Belonging) entitlements for K-12 BASE aid by 3 percent in fiscal 2003

?? Implement three proposals recommended by the Governor's Task for on Teacher

Shortages/Retention: the student loan repayment program; the mentoring grant program; and National Board Certification stipends.

Table 1
FY 2001 General Fund Supplemental
K-12 BASE Aid

	Appropriation	Expected	Supplemental
BASE Aid	\$ 439,422,988	\$ 448,327,751	\$ 8,904,763
Timber Harvest	1,981,949	3,499,749	1,517,800
Total	<u>\$ 441,404,937</u>	<u>\$ 451,827,500</u>	<u>\$ 10,422,563</u>

Each proposal is discussed in the program narratives that follow.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	Present Law Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Biennium Fiscal 00-01	Total Exec. Budget Fiscal 02-03
FTE	114.26	14.09	128.35	114.26	14.09	128.35	0.00	128.35
Personal Services	5,155,410	527,203	5,682,613	5,186,228	529,015	5,715,243	10,041,229	11,397,856
Operating Expenses	6,152,968	2,059,431	8,212,399	6,151,658	2,094,302	8,245,960	12,057,414	16,458,359
Equipment	72,351	0	72,351	72,351	0	72,351	100,599	144,702
Local Assistance	486,195,770	930,000	487,125,770	481,053,011	16,049,914	497,102,925	969,233,905	984,228,695
Grants	80,505,513	7,732,961	88,238,474	82,357,264	8,276,661	90,633,925	148,853,254	178,872,399
Total Costs	\$578,082,012	\$11,249,595	\$589,331,607	\$574,820,512	\$26,949,892	\$601,770,404	\$1,140,286,401	\$1,191,102,011
General Fund	490,339,238	2,537,064	492,876,302	485,215,517	17,681,377	502,896,894	977,050,861	995,773,196
State/Other Special	1,085,994	(152,083)	933,911	1,086,025	(152,114)	933,911	2,508,222	1,867,822
Federal Special	86,656,780	8,712,531	95,369,311	88,518,970	9,268,515	97,787,485	160,727,318	193,156,796
Proprietary	0	152,083	152,083	0	152,114	152,114	0	304,197
Total Funds	\$578,082,012	\$11,249,595	\$589,331,607	\$574,820,512	\$26,949,892	\$601,770,404	\$1,140,286,401	\$1,191,102,011

New Proposals

The table below summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
-----Fiscal 2002-----						-----Fiscal 2003-----				
<i>Prgm</i>	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - K-12 Base Aid Increase										
09	0.00	0	0	0	0	0.00	14,439,914	0	0	14,439,914
DP 2 - School Improvement: Focus on Learning										
06	7.00	1,100,000	0	0	1,100,000	7.00	1,100,000	0	0	1,100,000
DP 3 - School Facility Payments										
09	0.00	350,000	0	0	350,000	0.00	700,000	0	0	700,000
DP 5 - National Board Certification Stipend										
06	0.00	60,000	0	0	60,000	0.00	90,000	0	0	90,000
DP 8 - Adult Basic Education										
09	0.00	75,000	0	0	75,000	0.00	75,000	0	0	75,000
DP 10 - Address Issues Related to HB 528										
06	0.00	60,000	0	0	60,000	0.00	60,000	0	0	60,000
DP 11 - School Budget and Accounting Section										
06	1.00	51,366	0	0	51,366	1.00	49,152	0	0	49,152
DP 12 - Non-fiscal Data Automated System										
06	0.00	50,000	0	0	50,000	0.00	50,000	0	0	50,000
DP 13 - Special Ed: State Improvement Grant										
06	2.75	0	0	550,000	550,000	2.75	0	0	550,000	550,000
DP 14 - Tobacco Education										
06	1.34	154,174	0	0	154,174	1.34	154,167	0	0	154,167
DP 15 - Advanced Driver Ed Change to Proprietary										
06	0.00	0	(152,083)	0	0*	0.00	0	(152,114)	0	0*
DP 16 - Comprehensive School Reform										
09	0.00	0	0	963,061	963,061	0.00	0	0	963,061	963,061
DP 17 - Reduced Class Size										
09	0.00	0	0	6,500,000	6,500,000	0.00	0	0	7,000,000	7,000,000
DP 18 - Advanced Placement Incentive Program										
06	0.50	0	0	27,557	27,557	0.50	0	0	39,841	39,841
DP 19 - Advanced Placement Incentive Program										
09	0.00	0	0	194,900	194,900	0.00	0	0	238,600	238,600
DP 20 - Coordinated School Health Program										
06	0.50	0	0	477,013	477,013	0.50	0	0	477,013	477,013
DP 21 - Teacher Shortage/Teacher Salaries Recommendations										
06	1.00	56,524	0	0	56,524	1.00	53,144	0	0	53,144
DP 22 - Teacher Shortage/Teacher Salaries Recommendations										
09	0.00	580,000	0	0	580,000	0.00	910,000	0	0	910,000
Total	14.09	\$2,537,064	(\$152,083)	\$8,712,531	\$11,249,595*	14.09	\$17,681,377	(\$152,114)	\$9,268,515	\$26,949,892*

Elected Official New Proposal

As an elected official, the Superintendent of the Office of Public Instruction is authorized in statute to bring new proposals to the legislature, even though the new proposals were not included in the Executive Budget. The following new proposals were presented to the executive, but either were not approved or were approved at a reduced level.

1) School Funding Interim Study

This decision package adds \$50,000 from the general fund in fiscal 2002 for consultant fees, travel and per-diem for legislators and non-employees, printing, and facilitator fees. The intent of this request is the establishment of a task force that would study the adequacy and equity of funding for K-12 public schools. OPI proposed examining a number of areas, including allocation of funding, economies of scale, teacher salaries, teacher shortages, budget limitations, disparity of tax effort, adequacy of school bond limits and facility payments, and pupil transportation.

2) Workforce Development

OPI requested 3.0 FTE and related costs totaling \$252,856 in fiscal 2002 and \$252,844 in fiscal 2003 to provide services and support to programs for data management, evaluation, technical assistance and training, professional development, and accountability for multiple programs in the Division of Career and Technical Education. Programs in this division include vocational technical education, adult basic education and literacy, and GED program administration.

3) BASE Aid Increase

OPI will offer legislation to increase the BASE aid schedules by 3.9 percent in fiscal 2002 and 7.0 percent in fiscal 2003. The cost of this proposal is \$79.5 million for the biennium.

4) State Aid for Vocational Education

OPI will offer legislation to change the vocational education funding formula, including the weighting factors used for individual vocational programs. The legislation will cost \$5 million for the biennium.

5) Pupil Transportation Rates

OPI will offer legislation to increase the on-schedule pupil transportation rates for bus mileage. The increase in cost to the state will be \$1.5 million for the biennium.

6) School Facility Payments

OPI will offer legislation to increase the per-ANB facility entitlements by the amount of the inflation between 1991 and 2001, or 29.3 percent. This will not increase the amount of the appropriation, but will redistribute the state payment among schools and change the pro-ratio percentage.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	114.01	0.25	14.09	128.35	0.25	14.09	128.35	128.35
Personal Services	4,852,546	302,864	527,203	5,682,613	333,682	529,015	5,715,243	11,397,856
Operating Expenses	4,805,731	1,345,430	2,059,431	8,210,592	1,344,120	2,094,302	8,244,153	16,454,745
Equipment	47,351	25,000	0	72,351	25,000	0	72,351	144,702
Local Assistance	15,330	0	0	15,330	0	0	15,330	30,660
Grants	0	0	0	0	0	0	0	0
Total Costs	\$9,720,958	\$1,673,294	\$2,586,634	\$13,980,886	\$1,702,802	\$2,623,317	\$14,047,077	\$28,027,963
General Fund	4,330,299	178,499	1,532,064	6,040,862	197,537	1,556,463	6,084,299	12,125,161
State/Other Special	242,216	93,778	(152,083)	183,911	93,809	(152,114)	183,911	367,822
Federal Special	5,148,443	1,401,017	1,054,570	7,604,030	1,411,456	1,066,854	7,626,753	15,230,783
Proprietary	0	0	152,083	152,083	0	152,114	152,114	304,197
Total Funds	\$9,720,958	\$1,673,294	\$2,586,634	\$13,980,886	\$1,702,802	\$2,623,317	\$14,047,077	\$28,027,963

Program Description

The Administration Program provides leadership and coordination of services to a variety of school and public groups; staff provides assistance to the Superintendent of Public Instruction in performing the duties prescribed. The program:

- 1) supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board;
- 2) is responsible for the distribution and accounting of state and federal funds provided to school districts;
- 3) provides operational support to OPI; and
- 4) provides assistance and information to school districts.

The program also administers all federal grants received by OPI, including the budgets for:

- 1) curriculum assistance;
- 2) special education;
- 3) ESEA Title I, II, III, IV and VI administration;
- 4) secondary vocational education administration; and
- 5) other educational services including drivers' education, school food services, and audiology.

Funding

The Administration Program is funded with a combination of general fund, state special revenue, federal funds, and proprietary funds. The following table shows the various functions of the program, as well as the funding sources utilized in fiscal 2000 and those proposed for the 2003 biennium.

Table 2 OPI Funding by Function 2003 Biennium Executive Budget										
Function	Fiscal 2002					Fiscal 2003				
	General Fund	State Special	Federal Special	Proprietary	Total	General Fund	State Special	Federal Special	Proprietary	Total
Superintendent	\$ 794,230				\$ 794,230	\$ 797,333				\$ 797,333
Legal Services	236,748				236,748	237,625				237,625
Teacher Education and Licensure	291,733				291,733	289,731				289,731
Accreditation	110,100				110,100	111,206				111,206
Measurement and Accountability	109,345		34,382		143,727	109,991		34,382		144,373
Automated Systems Development	50,000				50,000	50,000				50,000
Information/Technology Support	669,318		23,680		692,998	671,658		23,680		695,338
State Distribution to Schools	685,063				685,063	687,124				687,124
Information Systems	227,849				227,849	230,441				230,441
MTPRIME Costs	-				-					-
Curriculum Services	294,870		47,110		341,980	296,441		47,110		343,551
School Improvement	1,369,379		123,202		1,492,581	1,400,392		123,202		1,523,594
Health Enhancement and Safety	285,666	183,911	1,609,917	152,083	2,231,577	285,659	183,911	1,616,425	152,114	2,238,109
Educational Opportunity and Equity	166,598		2,311,802		2,478,400	166,598		2,353,052		2,519,650
Special Education	448,701		2,773,668		3,222,369	448,717		2,763,847		3,212,564
Career, Vocational, and Adult Services	301,262		680,269		981,531	301,383		665,055		966,438
Total	\$ 6,040,862	\$ 183,911	\$ 7,604,030	\$ 152,083	\$ 13,980,886	\$ 6,084,299	\$ 183,911	\$ 7,626,753	\$ 152,114	\$ 14,047,077

Present Law Adjustments										
-----Fiscal 2002-----						-----Fiscal 2003-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					437,981					469,711
Vacancy Savings					(143,485)					(144,429)
Inflation/Defl ation					6,936					13,915
Fixed Costs					(49,599)					(62,218)
Total Statewide Present Law Adjustments					\$251,833					\$276,979
DP 6 - Replace Base adjustment	0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
DP 8 - Indirect Cost of Base Adjustments	0.00	24,483	411	17,885	42,779	0.00	27,674	411	19,500	47,585
DP 11 - Advanced Driver Education increased demand	0.25	0	78,950	0	78,950	0.25	0	78,981	0	78,981
DP 12 - Federal Grant Award Administration	0.00	0	0	1,508,581	1,508,581	0.00	0	0	1,728,581	1,728,581
DP 16 - Special Education Grant	0.00	0	0	(185,602)	(185,602)	0.00	0	0	(385,602)	(385,602)
DP 17 - School To Work Program Reduction	0.00	0	0	(24,391)	(24,391)	0.00	0	0	(44,866)	(44,866)
DP 18 - Job Training Partnership Act	0.00	0	0	(20,856)	(20,856)	0.00	0	0	(20,856)	(20,856)
DP 19 - Traffic Education Administration	0.00	0	12,000	0	12,000	0.00	0	12,000	0	12,000
Total Other Present Law Adjustments										
	0.25	\$34,483	\$91,361	\$1,295,617	\$1,421,461	0.25	\$37,674	\$91,392	\$1,296,757	\$1,425,823
Grand Total All Present Law Adjustments					\$1,673,294					\$1,702,802

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 6 - Replace Base Adjustment - The Executive Budget proposes adding funds to the base to replace funding provided by this agency, and to augment funding in support of the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), which replaced the Statewide Budget and Accounting System (SBAS) in the 2001 biennium.

LFD COMMENT

Several agencies were asked to provide one-time resources to support SABHRS in fiscal 2000. Contrary to an agreement with the agency that these funds would be left in the agency's base funding, the funds were removed from OPI's budget during the budget building process.

DP 8 - Indirect Cost of Base Adjustments - This adjustment adds funds to each function's budget in order to meet the indirect costs that support certain central services.

LFD COMMENT

Each agency function pays for an assessment equal to 17 percent against all personal services and most operating costs. This funds certain centralized functions of the agency, including payroll, accounting, and fixed costs. The rate (which must be approved by the legislature) and the functions it supports are discussed in more detail in the proprietary rate section of this document. If the legislature wishes to adjust this decision package, it must change the rate charged.

DP 11 - Advanced Drivers' Education - The Executive Budget proposes additional state special revenue spending authority in support of the Advanced Drivers' Education Program. The funds would provide an additional 0.25 FTE and related personal services/benefits and operating costs to meet increased course demand. Additional costs include seasonal, part-time employees, fuel and repairs, and equipment. The program operates through participant fees.

**LFD
COMMENT**

The Advanced Drivers' Education Program is funded with a state special revenue account. The program is self-supporting, deriving its revenues from participant fees. Upon informal recommendation of the Legislative Finance Committee, the Executive Budget is proposing that the program be funded through a proprietary account. For a further discussion, see DP 15 in the New Proposals section.

DP 12 - Federal Grant Award Administration - The Executive Budget recommends additional spending authority for funds provided by the federal government in support of the administration of current federal grants. Table 3 shows each grant and the additional funds requested.

The request also includes \$17,081 for additional indirect costs in support of OPI's centralized functions.

DP 16 - Special Education Grant - The Special Education IDEA Secondary Transition Grant, a five-year project funded by the U.S. Department of Education, ends September 30, 2001 (fiscal 2002). This decision package eliminates all base year expenditures.

DP 17 - School To Work Program Reduction - This decision package reduces the appropriation used for the administration of the School to Work Program as a result of reductions made at the federal level. Fiscal 2002 is the last year the grant will be funded.

Grant	Fiscal 2002	Fiscal 2003
Bilingual Education	\$75,000	\$75,000
Bilingual Professional Development	75,000	75,000
Comprehensive School Reform	30,000	50,000
Drug Free Schools (Indirects)	8,024	8,024
Homeless	20,000	20,000
IDEA B	604,557	804,557
Immigrant	1,000	1,000
Learn and Serve	10,000	10,000
Title I Evenstart	15,616	15,616
Title I Low Income	589,284	589,284
Title I Migrant	18,721	18,721
Title I Neglected	1,379	1,379
Title II Math/Science	40,000	40,000
Title VI Innovative Ed	20,000	20,000
Total	\$1,508,581	\$1,728,581

**LFD
COMMENT**

The School to Work Program was designed to provide students (especially those in smaller schools) with opportunities for career exploration and real-world application of learned skills. When the legislature provided funding for School to Work, it did so with the understanding that the funding for this project might not continue. The Office of Public Instruction indicated that the funds would be used in part to establish a framework that schools could integrate into their curriculums, thereby providing sustainability at such time as the funding was no longer available. OPI is not requesting replacement of these funds.

**LFD
COMMENT**

According to OPI, the legislature provided \$5.3 million in federal funds to OPI for the School to Work Program, including \$249,793 for administration, in the 2001 biennium. The agency expended \$2,752,682 in fiscal 2000, of which \$129,999 was expended in this program. This reduction reduces funding for administration to \$105,608 in fiscal 2002 and \$85,133 in fiscal 2003. The Distributions to Schools Program includes the reduction in federal grant authority to reflect the elimination of the grant.

**LFD
ISSUE**

The Executive Budget reduces the administrative costs of School to Work by \$44,866 in fiscal 2003. However, a total of \$85,133 remains in the base as federal authority and could be reduced.

DP 18 - Job Training Partnership Act - This decision package eliminates funding for the Job Training Partnership Act (JTPA), which has been discontinued by the federal government and replaced with the Work Force Investment Act.

**LFD
COMMENT**

The Office of Public Instruction used JTPA funds to supplement various programs, including adult basic education. According to the agency, OPI will get a limited amount of Work Force Investment Funds. The JTPA funding to these programs will not be replaced.

DP 19 - Traffic Education Administration - The Traffic Education Program operates through state special revenue funds set aside for traffic education. The Health Enhancement and Safety Division administers this program, which, in part, is required to conduct periodic onsite drivers'-education program reviews. The program also develops, prints, and distributes essential instructional materials. This increase would allow the program to conduct the periodic program review obligation and revise the current curriculum guide, which was last updated in 1993.

**LFD
COMMENT**

Traffic education is funded through a portion of drivers' license and duplicate drivers' license fees. In fiscal 2000, the department transferred just under \$1.0 million to programs in local schools and retained \$92,613 for program administration. Increases in administrative appropriations ultimately reduce the amount available for pass-through to school districts. As discussed in the Distribution to Public Schools Program, the Executive Budget requests an annual reduction in grants to schools of \$250,000 due to an anticipated reduction in drivers' license fee revenue.

New Proposals -----Fiscal 2002-----						-----Fiscal 2003-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 2 - School Improvement: Focus on Learning										
06	7.00	1,100,000	0	0	1,100,000	7.00	1,100,000	0	0	1,100,000
DP 5 - National Board Certification Stipend										
06	0.00	60,000	0	0	60,000	0.00	90,000	0	0	90,000
DP 10 - Address issues related to HB528										
06	0.00	60,000	0	0	60,000	0.00	60,000	0	0	60,000
DP 11 - School Budget and Accounting Section										
06	1.00	51,366	0	0	51,366	1.00	49,152	0	0	49,152
DP 12 - Non-fiscal data automated system										
06	0.00	50,000	0	0	50,000	0.00	50,000	0	0	50,000
DP 13 - Special Ed: State Improvement Grant										
06	2.75	0	0	550,000	550,000	2.75	0	0	550,000	550,000
DP 14 - Tobacco Education										
06	1.34	154,174	0	0	154,174	1.34	154,167	0	0	154,167
DP 15 - Advanced Driver Ed change to proprietary										
06	0.00	0	(152,083)	0	0 *	0.00	0	(152,114)	0	0 *
DP 18 - Advanced Placement Incentive Prog.										
06	0.50	0	0	27,557	27,557	0.50	0	0	39,841	39,841
DP 20 - Coordinated School Health Program										
06	0.50	0	0	477,013	477,013	0.50	0	0	477,013	477,013
DP 21 - Teacher Shortage/Teacher Salaries recommendations										
06	1.00	56,524	0	0	56,524	1.00	53,144	0	0	53,144
Total	14.09	\$1,532,064	(\$152,083)	\$1,054,570	\$2,586,634	14.09	\$1,556,463	(\$152,114)	\$1,066,854	\$2,623,317
					*					*

New Proposals

DP 2 - School Improvement: Focus on Learning - The Executive Budget is requesting support from the general fund to continue the School Improvement Project in the 2003 biennium. The funds are requested to:

?? Provide for annual testing of grades 4, 8, and 11;

?? Develop and publish the biennial Profile of Montana Schools; and

?? Develop a statewide system of support for teachers and administrators.

The request includes 7.00 FTE in the Office of Public Instruction (5.00 professional staff and 2.00 support staff).

LFD COMMENT

This request represents the final professional development and implementation stage for the phase-in of content and performance standards begun in fiscal 1998. The department's request consists of the components shown in the table. OPI anticipates that on-going costs will be approximately \$300,000 per year. In addition, the long-term timelines for the project call for the Board of Public Education to begin the next five-year review cycle in 2004.

Table 4
Improving Montana Schools
Components of Request
2003 Biennium

Component	Fiscal 2002	Fiscal 2003
Personal Services	\$256,724	\$257,615
Professional Development	265,483	263,276
Accountability Support		
Instructional Support Teams		
Professional Development Institutes		
Professional Development and Training Modules		
Standards Based Instructional Assessment		
Stakeholders		
Model Curriculum Guides		
Teacher Education Programs		
K-16 Joint Committee		
State Level Assessment	278,000	278,000
Statewide Education Profile	45,000	45,000
OPI Professional Staff	120,000	120,000
Indirect Costs	134,793	136,109
Total General Fund	\$1,100,000	\$1,100,000

**LFD
COMMENT**

Due to the short-term nature of this request, if approved, the legislature may wish to designate this appropriation as one-time-only.

DP 5 - National Board Certification Stipend - This addition, which funds one of the recommendations of the Governor's Task Force on Teacher Shortage/Teacher Salaries, would provide a \$3,000 annual stipend for Montana teachers who are certified by the National Board of Professional Teaching Standards and who teach full-time in a Montana public school district. OPI anticipates that 15 Montana teachers will be eligible for this stipend in fiscal 2002 and that 20 teachers will be eligible for the stipend in fiscal 2003, for a biennial cost of \$150,000. The stated goal of the stipend is to recruit and retain high quality teachers.

**LFD
COMMENT**

The 1999 legislature provided the following language in HB 2:

"The Superintendent of Public Instruction is authorized to use up to \$30,000 in general fund money for the 2001 biennium from the appropriation in [OPI Administration] for national board certification stipends to Montana public school teachers who obtain certification from the National Board for Professional Teaching Standards."

The language further authorized OPI to provide a one-time stipend of \$5,000 or less for each teacher who met the standards. OPI provided a \$2000 stipend to 3 teachers in fiscal 2000 from the School Improvement general fund appropriation. OPI anticipates that 20 teachers will have achieved certification in fiscal 2002 and 30 in fiscal 2003. As stated, this proposal would provide an annual, rather than a one-time, stipend.

DP 10 - Address Issues Related to HB 528 - The Executive Budget requests a one-time-only appropriation to implement the provisions of HB 528, passed by the 1999 legislature. This legislation states that the constitutionally-declared policy of the state to "recognize the distinct and unique cultural heritage of American Indians and to be committed in its educational goals to the preservation of their cultural heritage." OPI would:

- ?? develop model curriculum guides;
- ?? create a web-based professional development tool to reach all Montana educators; and
- ?? establish funding for the Montana Advisory Council for Indian Education (MACIE).

Funds are requested for expenses generated by the three advisory groups (curriculum content, website content, and MACIE). Funds would be used to hire consultants, provide website upkeep, and for printing. The intended outcome is to have a five-year professional development plan and a series of curriculum guides.

**LFD
ISSUE**

The fiscal note accompanying HB 528 indicated that there would be no fiscal impact resulting from the passage of HB 528. The bill encouraged educational efforts and stated that Boards of Trustees in local school districts could require certified personnel to satisfy the requirements for instruction in American Indian studies. Statute does not mandate training. The fiscal note further assumed that current staff would provide any in-service training from OPI. During the interim, the Governor, in conjunction with the Board of Regents and the Office of Public Instruction, established a much more ambitious implementation plan than that envisioned in the fiscal note.

The Executive Budget contains no additional funding in the Montana University System to implement this program.

DP 11 - School Budget and Accounting Section - The Executive Budget recommends adding 1.0 FTE to the School Budget and Accounting Section to address the increased workload resulting from the growing complexity of school funding. This request includes the provision of training for local school district administration and budget personnel. The division currently has 7.0 FTE.

DP 12 - Non-Fiscal Data Automated System - The 1999 legislature provided funding to develop a computer system

whereby schools could electronically submit all required non-fiscal data collected by schools to OPI, rather than through the previous method utilizing paper submittal. (Non-fiscal data is primarily used to meet educational accountability standards and for federal reporting.) The Executive Budget includes funding to complete the non-fiscal data information system. Funds would be used for Information Services Division support for Citrix (the remote server access software that allows school districts to connect to the state's computer server), licenses for school districts, and training for school personnel in using the reporting system. OPI estimates that all but about 20 of the smallest school districts will be submitting non-fiscal data electronically by fall 2002 (fiscal 2003). The stated overall goal is to reduce the amount of time necessary for the Board of Public Education to determine accreditation status of schools by several months.

**LFD
COMMENT**

The 1999 legislature made a one-time-only appropriation from the general fund of \$360,314 and 2.0 FTE for this project. OPI has expended \$37,790 by conducting the project with in-house staff. This appropriation would complete the project, and would pay for licenses, training for school districts, and cover on-going maintenance costs with the Information Services Division at a rate of \$45,000 per year.

DP 13 - Special Education: State Improvement Grant - This addition would provide authority to expend the federal State Improvement Grant, and includes 2.75 FTE for the Special Education Division. The project targets the areas of personnel preparation, recruitment, retention, and professional development.

DP 14 - Tobacco Education - This decision package transfers funding for tobacco education in schools from the Department of Public Health and Human Services to the Office of Public Instruction. The proposal includes 1.34 FTE (1.00 professional FTE and 0.34 FTE support staff) to implement a statewide school-based tobacco use prevention education program.

**LFD
COMMENT**

The Department of Public Health and Human Services (DPHHS) entered into an agreement with the Office of Public Instruction in fiscal 2000 through which general funds would be transferred to OPI in support of establishing a tobacco education program. DPHHS transferred \$57,432 in fiscal 2000 and will transfer \$158,447 by January 1, 2001.

DP 15 - Advanced Drivers' Education Change to Proprietary - This decision package changes the Advanced Driver's Education Program fund from a state special designation to a proprietary designation. The Advanced Driver Education Program is funded from participant fees.

**LFD
COMMENT**

The Legislative Finance Committee informally recommended this change. Since the program is self-supporting and has the characteristics of an enterprise function, changing to a proprietary fund would allow the program to respond increased demand and utilize the increased revenue without seeking a budget amendment.

DP 18 - Advanced Placement Incentive Program - The Executive Budget recommends the addition of federal funds for the Advanced Placement Incentive Program. The program is intended to encourage low-income students to participate in Advance Placement courses in preparation for the more challenging coursework of the higher grades, and to lay the groundwork for college success. The Executive Budget also recommends direct grants to school districts of \$433,500 in the Distribution to Schools Program. (For further discussion, see the narrative for DP 19 in the New Proposals section of that program.)

**LFD
ISSUE**

This grant covers a three-year period. Since it is a new grant, no history of efficacy or accomplishments is available, nor is there any assurance that the program will be reauthorized by Congress. Since new grants establishing new programs can develop constituencies that exist after the federal government ceases funding, the legislature may wish to establish desired outcomes and performance measures that will provide future legislatures with the ability to determine the future of the program at such time as federal funding is discontinued.

**LFD
COMMENT**

Because continuance of this grant is uncertain, if the legislature approves this request, the appropriation should be made on a one-time-only basis.

DP 20 - Coordinated School Health Program - The Executive Budget is recommending 0.50 FTE and operating expenses (including over \$350,000 each year for consulting and professional services) to implement a program that would enhance OPI's ability to provide support to school districts in their efforts to establish health prevention education programs. Federal funds provide the support for this program.

DP 21 - Teacher Shortage/Teacher Salaries Recommendations - The Executive Budget proposes a loan forgiveness program designed to encourage new teachers to work in rural areas, and to provide funding to assist districts in developing mentoring programs that would improve the skills and retention of beginning teachers. The Governor's Task Force on Teacher Shortage/Teacher Salaries recommended both programs. This decision package funds administrative costs, including 0.5 FTE, as well as the related operating costs and startup expenses for each program.

**LFD
ISSUE**

If the legislature funds this program, it may wish to establish benchmarks and goals to aid in future decision-making. For example, the legislature may wish to make future funding contingent upon demonstrated success in retention of teachers and placement of teachers in rural school districts.

**LFD
COMMENT**

The Executive Budget includes a number of proposals to partially implement the recommendations of the Governor's Task Force. Table 5 provides a summary of those proposals.

For a further discussion of each proposal, see the narrative in the appropriate section of this report.

Table 5
Executive Proposals - Teacher Retention/Shortages
2003 Biennium

Proposal	Fiscal 2002	Fiscal 2003
Office of Public Instruction		
National Board Certification Stipends	\$60,000	\$90,000
Teacher Mentoring	250,000	250,000
Loan Forgiveness Payments	330,000	660,000
Loan and Mentoring Administration	56,524	53,144
Commissioner of Higher Education		
Targeted Scholarships for Teachers	77,500	155,000
Total General Fund	<u>\$774,024</u>	<u>\$1,208,144</u>

Language Recommendations

The Executive Budget recommends that the following language be included in HB 2:

?? "There shall be an Advanced Drivers' education proprietary account for the collection and expenditure of tuition."

?? "Items [federal funds] are biennial appropriations."

?? "Item [National board Certification] is contingent on passage and approval of LC132."

Proprietary Rates

Program Description

OPI Indirect Cost Pool -

OPI's internal service fund (A/E 06512) is used to pool internal and statewide central service costs charged back to all of OPI's state- and federally-funded programs using a pre-approved indirect cost rate.

Revenues and Expenses

Expenditures accounted for as indirect costs include all internal payroll, human resource, accounting, budgeting, cash management, financial reporting, procurement, word processing, mail delivery, library services, most statewide fixed costs, statewide indirect costs, and all other costs that cannot reasonably be identified with a particular program. A total of 19.55 FTE are funded from revenues deposited in this fund.

Indirect cost pool revenues are based on expenditures recorded by the Administration Program. Revenues are generated by applying an approved indirect cost rate to all direct personal service; operating expenditures are recorded for state- and federally-funded programs.

In order to comply with federal regulations (OMB Circular A-87) as well as a recent legislative audit recommendation, effective July 1, 2000, OPI began paying termination costs for all employees (except personal staff to the State Superintendent) from the indirect cost pool. Effective July 1, 2001, OPI will begin paying Department of Administration charges for SABHRS as an indirect cost, thereby allocating the cost to state and to federal programs.

There is no requirement to reserve fund balance. Management's objective is to maintain the minimum balance necessary for on-going operations. If a significant balance accumulates because direct expenses increase at a faster rate than indirect expenses, the approved rate will adjust downward over time to reduce the excess.

Rate Explanation

OPI negotiates a three-year "predetermined rate" with the U.S. Department of Education. The rate is calculated in accordance with federal regulations and Section 17-3-111(1), MCA. The rate approved for fiscal years 1999 through 2001 is 17 percent. A new rate will be negotiated for the 2003 biennium based on actual costs incurred in fiscal year 2000. No significant change in the rate is anticipated.

Report on Internal Service & Enterprise Funds, 2003 Biennium

Accounting Entity Number	Accounting Entity Name	Agency Number	Agency Name	Program Name
06512	Indirect Cost Pool	3501	Office of Public Instruction	Administration

Fund Balance Information

	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	40,603	75,301	148,619	101,632	133,712	244,303	300,896	191,350
(Increases)								
Indirect charges-State programs	70,458	39,898	561,480	612,957	672,247	683,760	702,673	702,673
Indirect charges-Federal programs	635,386	598,499	621,095	611,939	667,975	728,003	760,000	760,000
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	350,000	424,818	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	2,855	2,754	-	-	-
Total Increases	1,055,844	1,063,215	1,182,575	1,227,751	1,342,976	1,411,763	1,462,673	1,462,673
(Decreases)								
Personal Services	556,447	542,580	653,446	696,281	724,142	816,225	816,225	753,080
Operations	463,116	447,317	530,641	500,138	508,243	538,945	755,994	697,379
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	1,583	-	-	-	-	-	-	-
Total Decreases	1,021,146	989,897	1,184,087	1,196,419	1,232,385	1,355,170	1,572,219	1,450,459
Adjustments to Beginning Retained Earnings	-	-	(45,475)	748	-	-	-	-
Ending Retained Earnings	75,301	148,619	101,632	133,712	244,303	300,896	191,350	203,564
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	75,301	148,619	101,632	133,712	244,303	300,896	191,350	203,564
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	169,927	164,983	197,348	199,403	205,398	225,862	262,037	241,743

Fee/Rate Information for Legislative Action:

					-----Estimated-----	
Requested Rates for Internal Service Funds	17%	17%	17%	17%	17%	

Authority

Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge.

Significant Present Law

The Executive Budget establishes the base budget for the indirect cost pool at half the biennial amount appropriated for the 2001 biennium. Additional authority is anticipated to pay for Department of Administration SABHRS charges and to meet the costs associated with employee terminations.

Program Proposed Budget								
<i>Budget Item</i>	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	1,807	0	0	1,807	0	0	1,807	3,614
Local Assistance	477,164,153	9,016,287	930,000	487,110,440	3,873,528	16,049,914	497,087,595	984,198,035
Grants	74,197,792	6,307,721	7,732,961	88,238,474	8,159,472	8,276,661	90,633,925	178,872,399
Total Costs	\$551,363,752	\$15,324,008	\$8,662,961	\$575,350,721	\$12,033,000	\$24,326,575	\$587,723,327	\$1,163,074,048
General Fund	476,555,227	9,275,213	1,005,000	486,835,440	4,132,454	16,124,914	496,812,595	983,648,035
State/Other Special	1,000,000	(250,000)	0	750,000	(250,000)	0	750,000	1,500,000
Federal Special	73,808,525	6,298,795	7,657,961	87,765,281	8,150,546	8,201,661	90,160,732	177,926,013
Total Funds	\$551,363,752	\$15,324,008	\$8,662,961	\$575,350,721	\$12,033,000	\$24,326,575	\$587,723,327	\$1,163,074,048

Program Description

The Distribution to Public Schools Program is used by OPI to distribute various state and federal funds to local education agencies.

Funding

Table 2 provides a complete listing of appropriations by fund type included in the Distribution to Schools Program.

Table 2
HB 2 Distribution to Schools, General Fund, State Special, and Federal Funds

Description	Base Budget 2000	PL Base Adjustments Fiscal 2002	New Proposals Fiscal 2002	Total Executive Fiscal 2002	PL Base Adjustments Fiscal 2003	New Proposals Fiscal 2003	Total Executive Fiscal 2003
General Fund							
Direct State Aid	\$ 285,014,058	\$ 32,399,553	\$ -	\$ 317,413,611	\$ 28,293,576	\$ 9,634,454	\$ 322,942,087
GTB - School General Fund	120,232,160	(24,136,749)	-	96,095,411	(25,571,931)	3,788,465	98,448,694
GTB - School Retirement	21,079,332	(779,332)	-	20,300,000	(779,332)	-	20,300,000
School Facility Reimbursement	3,359,559	640,441	350,000	4,350,000	640,441	700,000	4,700,000
Special Education	33,879,457	20,393	-	33,899,850	20,393	1,016,996	34,916,846
Transportation	10,587,993	200,000	-	10,787,993	300,000	-	10,887,993
Instate Treatment	506,215	468,682	-	974,897	468,682	-	974,897
Timber Harvest	-	450,000	-	450,000	744,000	-	744,000
Secondary Vo Ed	720,000	(5,000)	-	715,000	(5,000)	-	715,000
Adult Basic Ed	250,000	-	75,000	325,000	-	75,000	325,000
Gifted & Talented	141,074	8,926	-	150,000	8,926	-	150,000
School Food	648,653	-	-	648,653	-	-	648,653
Teacher Shortage/Teacher Salaries	-	-	580,000	580,000	-	910,000	910,000
Other	136,725	8,300	-	145,025	12,700	-	149,425
Total General Fund	\$ 476,555,227	\$ 9,275,213	\$ 1,005,000	\$ 486,835,440	\$ 4,132,454	\$ 16,124,914	\$ 496,812,595
State Special Revenue							
Traffic Safety Distribution	\$ 1,000,000	\$ (250,000)	\$ -	\$ 750,000	\$ (250,000)	\$ -	\$ 750,000
Federal Special Revenue							
Federal School Foods Programs	\$ 17,939,414	\$ 28,500	\$ -	\$ 17,967,914	\$ 28,500	\$ -	\$ 17,967,914
ESEA - Title I	28,174,873	2,500,000	-	30,674,873	3,500,000	-	31,674,873
ESEA Title II - Eisenhower Pro Dev	1,256,390	500,000	-	1,756,390	500,000	-	1,756,390
ESEA Title III-Tech Literacy Challenge	2,804,972	-	-	2,804,972	-	-	2,804,972
ESEA Title IV Safe & Drug Free Schools	1,678,389	-	-	1,678,389	-	-	1,678,389
ESEA Title VI - Innovative Education	1,684,182	500,000	-	2,184,182	500,000	-	2,184,182
ESEA Title VII - Immigrant Education	35,199	6,000	-	41,199	6,000	-	41,199
IDEA	13,086,597	4,000,000	-	17,086,597	6,500,000	-	19,586,597
Adult Basic Education	1,220,107	-	-	1,220,107	-	-	1,220,107
Job Training Partnership Act (JTPA)	240,705	(240,705)	-	-	(240,705)	-	-
Carl Perkins	2,845,689	-	-	2,845,689	-	-	2,845,689
School to Work	2,748,249	(1,100,000)	-	1,648,249	(2,748,249)	-	-
Education of Homeless Children	49,739	75,000	-	124,739	75,000	-	124,739
Learn and Serve Montana	44,020	30,000	-	74,020	30,000	-	74,020
Reduced Class Size	-	-	6,500,000	6,500,000	-	7,000,000	7,000,000
Advanced Placement Fee Reimbursement	-	-	194,900	194,900	-	238,600	238,600
Comprehensive School Reform	-	-	963,061	963,061	-	963,061	963,061
Total Federal Special	\$ 73,808,525	\$ 6,298,795	\$ 7,657,961	\$ 87,765,281	\$ 8,150,546	\$ 8,201,661	\$ 90,160,732
Total General Fund	\$ 476,555,227	\$ 9,275,213	\$ 1,005,000	\$ 486,835,440	\$ 4,132,454	\$ 16,124,914	\$ 496,812,595
Total State Special	1,000,000	(250,000)	-	750,000	(250,000)	-	750,000
Total Federal Special	73,808,525	6,298,795	7,657,961	87,765,281	8,150,546	8,201,661	90,160,732
Total HB2 Distribution to Public Schools	<u>\$ 551,363,752</u>	<u>\$ 15,324,008</u>	<u>\$ 8,662,961</u>	<u>\$ 575,350,721</u>	<u>\$ 12,033,000</u>	<u>\$ 24,326,575</u>	<u>\$ 587,723,327</u>

Present Law Adjustments											
-----Fiscal 2002-----						-----Fiscal 2003-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 1 - K-12 Base Aid	0.00	7,503,864	0	0	7,503,864	0.00	1,962,705	0	0	1,962,705	
DP 2 - Timber Harvest/Technology	0.00	450,000	0	0	450,000	0.00	744,000	0	0	744,000	
DP 3 - School Facility Payments current	0.00	640,441	0	0	640,441	0.00	640,441	0	0	640,441	
DP 4 - Transportation Aid	0.00	200,000	0	0	200,000	0.00	300,000	0	0	300,000	
DP 5 - School District Audit Filing Fee	0.00	8,300	0	0	8,300	0.00	12,700	0	0	12,700	
DP 9 - Biennial Appropriations	0.00	472,608	0	0	472,608	0.00	472,608	0	0	472,608	
DP 13 - School To Work	0.00	0	0	(1,100,000)	(1,100,000)	0.00	0	0	(2,748,249)	(2,748,249)	
DP 14 - Job Training Partnership Act (JTPA)	0.00	0	0	(240,705)	(240,705)	0.00	0	0	(240,705)	(240,705)	
DP 15 - Federal Grant Awards	0.00	0	0	7,639,500	7,639,500	0.00	0	0	11,139,500	11,139,500	
DP 23 - Reduce to anticipated drivers' license revenue	0.00	0	(250,000)	0	(250,000)	0.00	0	(250,000)	0	(250,000)	
Total Other Present Law Adjustments		0.00	\$9,275,213	(\$250,000)	\$6,298,795	\$15,324,008	0.00	\$4,132,454	(\$250,000)	\$8,150,546	\$12,033,000
Grand Total All Present Law Adjustments					\$15,324,008						\$12,033,000

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - K-12 Base Aid - The Executive Budget recommends an increase in present law BASE aid of \$7.5 million in fiscal 2002 and \$2.0 million in fiscal 2003. (Note: BASE aid in the schools is the funding mechanism provided by statute that is used to determine, on a per school and per pupil basis, how much a school district is entitled to receive.)

LFD Discussion and Analysis

K-12 Present Law BASE Aid

BASE Aid for K-12 consists of direct state aid, guaranteed tax base (GTB) for districts' general funds, and GTB for counties' teacher retirement funds. Through statutory formula, direct state aid varies with the number of Average Number Belonging (ANB) and with legislative changes to basic and ANB entitlements. GTB varies directly with ANB, legislative changes in basic and ANB entitlements, and the statewide GTB ratio. GTB varies inversely with district taxable value, amount of non-levy revenue, and the percent devoted to direct state aid.

Present law BASE aid is the amount spent from the state general fund in fiscal 2000. Several of the factors that will determine BASE aid in fiscal 2002 and fiscal 2003 have changed since fiscal 2000. These include:

- 1) reductions in ANB;
- 2) legislated increases in basic and ANB entitlements and legislated increases in the direct state aid percent, and
- 3) reductions in district tax bases, the establishment of property tax reimbursements, and reductions in district vehicle non-levy revenues

1) ANB is equal to enrollment in the prior fiscal year plus adjustments for teacher days. The ANB in school districts has been falling since fiscal 1997; enrollment has been falling since fiscal 1996. Chart 1 shows the historical and projected enrollments from fiscal 1989 through fiscal 2006. Enrollment is expected to continue to decline, partially as a result of falling number of live births, which peaked in calendar year 1982. As shown in Chart 1, children born in 1982 were in 9th grade in fiscal 1996. The up-swell and subsequent decline in births between the mid 1970's and the late 1980's is called the "Baby Boom Echo," which is to say that these are the children of the post WWII Baby Boom generation. The chart shows the number entering high school has been dropping since fiscal 1996; this trend will continue for many more years unless increased net in-migration of school age children occurs.

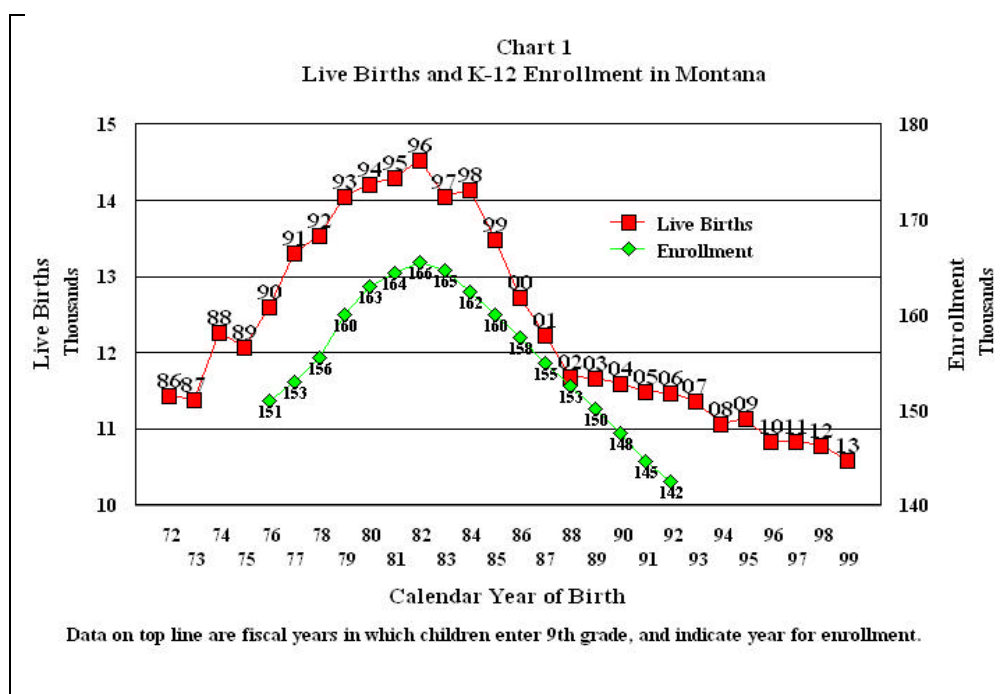


Table 3
Average Number Belonging (ANB) in Montana Schools

Fiscal Year	Elementary	Percent Change	High School	Percent Change	Total	Percent Change
A 1994	111,497		45,457		156,954	
A 1995 *	114,772	2.9%	47,818	5.2%	162,590	3.6%
A 1996	114,734	0.0%	49,045	2.6%	163,779	0.7%
A 1997	114,160	-0.5%	50,582	3.1%	164,742	0.6%
A 1998	112,449	-1.5%	51,432	1.7%	163,881	-0.5%
A 1999	109,652	-2.5%	51,885	0.9%	161,537	-1.4%
A 2000	107,724	-1.8%	52,022	0.3%	159,746	-1.1%
A 2001	106,014	-1.6%	51,524	-1.0%	157,538	-1.4%
E 2002	103,628	-2.3%	51,046	-0.9%	154,674	-1.8%
E 2003	101,552	-2.0%	50,795	-0.5%	152,347	-1.5%

* includes for the first time, students who spend more than 1/2 day in special education class

A = Actual; E = Estimated

Includes Adjustment as result of October, 2000 count.

Table 3 shows historical ANB between fiscal 1994 and 2001, as well as projected ANB for fiscal 2002 and 2003. ANB in fiscal 2002 will be 5,072 less than it was in fiscal 2000, reflecting a decline of 3.2 percent. ANB in fiscal 2003 will be 7,399 less than in fiscal 2000, reflecting a decline of 4.6 percent. For purposes of demonstrating what that means on a practical level, if all of the children lost to the school system as a result of declining enrollment were of similar ages, and if they were clustered in the same location, the statewide K-12 school system could eliminate nearly 250 classrooms of 25 students each. At

the other extreme, if these children were widely dispersed and of different ages, each existing classroom would lose less than one student.

2) Present law spending for BASE aid in the 2003 biennium reflects the school funding changes enacted in SB 100 and HB 4. Table 4 shows a history of legislative change to the state school funding system beginning in fiscal 1994. The latest changes to school funding parameters were instituted in SB 100, passed during the 1999 regular legislative session, and in HB 4, passed during the May 2000 special session. Under SB 100, per-ANB entitlements for elementary districts were increased by 3.5 percent each year of the 2001 biennium; those for high school districts were increased by 1 percent each year of the biennium. Direct state aid was increased to 41.1 percent of maximum budgets in fiscal 2000 and to 41.8 percent in fiscal 2001. SB 100 also increased funding for special education by \$1.4 million for each year of the 2001 biennium.

Table 4 Entitlements, ANB and State Aid								
	FY1994	FY95-97	FY1998	FY1999	FY2000	FY2001 Actual & Estimated	FY2002 Present Law	FY2003 Present Law
Component	Actual	Actual	Actual	Actual	Actual	SB100/ HB4		
Bill Authorizing Entitlement Change	HB667	HB22	HB47	HB47	SB100	HB4		
Basic (Per District) Entitlements								
Elementary	18,000	17,190	18,000	18,000	18,000	18,540	18,540	18,540
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	0.0%	0.0%
High School	200,000	191,000	200,000	200,000	200,000	206,000	206,000	206,000
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	0.0%	0.0%
Per ANB Entitlements								
Elementary	<u>3,500</u>	<u>3,343</u>	<u>3,376</u>	<u>3,410</u>	<u>3,529</u>	<u>3,763</u>	<u>3,763</u>	<u>3,763</u>
Percent Change		-4.5%	1.0%	1.0%	3.5%	6.6%	0.0%	0.0%
High School	4,900	4,680	4,726	4,773	4,821	5,015	5,015	5,015
Percent Change		-4.5%	1.0%	1.0%	1.0%	4.0%	0.0%	0.0%
Base Budget Components								
Direct State Aid	40.0%	40.0%	40.0%	40.0%	41.1%	44.7%	44.7%	44.7%
Guaranteed tax base aid	40.0%	40.0%	40.0%	40.0%	38.9%	35.3%	35.3%	35.3%
ANB and State Spending								
Average Number Belonging *	<u>156,954</u>	<u>163,704</u>	<u>163,881</u>	<u>161,737</u>	<u>159,746</u>	<u>157,538</u>	<u>154,673</u>	<u>152,347</u>
Percent Change		4.3%	0.1%	-1.3%	-1.2%	-1.4%	-1.8%	-1.5%
Special Education Funding (Millions)*	<u>32.794</u>	<u>33.494</u>	<u>32.051</u>	<u>32.501</u>	<u>33.879</u>	<u>33.920</u>	<u>33.900</u>	<u>33.900</u>
Percent Change		2.1%	-4.3%	1.4%	4.2%	0.1%	-0.1%	0.0%
BASE Aid (Millions)*	400.481	407.471	412.968	413.160	426.326	448.328	433.809	428.268
Percent Change		1.7%	1.3%	0.0%	3.2%	5.2%	-3.2%	-1.3%
* Values are averages for FY95-97								
Bill and session year: HB667, 1993; HB22, Nov SS,1993; HB47, 1997; SB100, 1999, HB4,May SS,2000.								

HB 4 further increased state aid to school districts. The basic and per-ANB entitlements were increased by a further 3 percent for fiscal 2001. In addition, the direct state aid percent was increased to 44.7 percent. HB 4 increased state aid to schools by \$20 million in fiscal 2001.

The legislative changes embodied in SB 100 and HB 4 have acted to:

- raise the basic and per-ANB entitlements by an amount that more than offsets the impact of declines in ANB;
- increase the amount of direct state aid while reducing GTB spending in districts; and
- allow most school districts with declining enrollments to maintain general fund budget authority.

3) A third set of factors impacting the present law level of BASE aid to districts' general and retirement funds include legislated changes in the property tax base, the institution of property tax reimbursements (in SB 184), and legislated changes in receipts of vehicle fees. The present law estimates reflect legislated reductions in tax rates for electrical generation equipment, telecommunications property, and business equipment. The tax base for each district was also altered by changes to commercial and residential real estate including:

- a) allowing a 4-year reappraisal phase-in;
- b) establishment and phase-in of homestead and comstead exemptions; and
- c) phased-in reductions in the tax rate.

These tax base reductions were accomplished during the 1999 legislative session and reached full effect in fiscal 2001. SB 184, passed during the 1999 legislative session, provided for reimbursements to school districts for the impacts of all but the tax base changes associated with commercial and residential real estate.

The present law BASE aid expenditure estimates are based on district light vehicle receipts as generated under HB 540, which placed the taxation of light vehicles on a fee basis related to the age of vehicle. HB 540 also abolished the distribution of this revenue to the state. In spite of this redistribution, school districts will receive less vehicle revenue than they did in fiscal 1999, and thus will qualify for more GTB.

Table A Executive Present Law BASE Aid Adjustments			
Base Aid Item	FY2000 Base Budget	FY2002 Adjustment	FY2003 Adjustment
Direct State Aid	\$ 285,014,058	\$ 32,399,553	\$ 28,293,576
District GF GTB	\$ 120,232,160	\$ (24,136,749)	\$ (25,571,931)
Retirement GTB	<u>21,079,332</u>	<u>(779,332)</u>	<u>(779,332)</u>
Total	<u>\$ 426,325,550</u>	<u>\$ 7,483,472</u>	<u>\$ 1,942,312</u>
Special Education	33,879,457	20,393	20,393

Summary

As shown in Table A, the net impact of these factors is a present law adjustment for BASE aid expenditures of \$7.5 million in fiscal 2002 and \$2.0 million in fiscal 2003. These adjustments also contain \$20,393 in additional special education funds for each year of the 2003 biennium, and reflect the amount that remained unspent in the base year.

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The Executive Budget's present law adjustment was based on ANB numbers before the latest October 2000 enrollment count. This, in part, will generate the ANB numbers for fiscal 2002. In light of the October enrollment count, ANB estimates for the 2003 biennium have been adjusted to reflect a small further decline. Table 5 compares the ANB numbers and accompanying state BASE aid for the executive's request and as updated to reflect the October count. The net effect of the ANB changes is to reduce present law BASE aid by \$1.1 million in each year of the 2003 biennium.

Table 5
Comparison of Executive Request
And October ANB Estimates

Fiscal Year	Executive Budget	October Estimates	Change
Elementary			
2002	103,719	103,628	(91)
2003	102,614	101,552	(1,062)
High School			
2002	51,418	51,046	(372)
2003	50,527	50,795	268
Total ANB Change			\$ (1,257)
Present Law BASE Aid Adjustments			
Fiscal Year	Executive Budget	Revised PL Request	Annual Change
2002	7,483,472	6,351,683	(1,131,788)
2003	1,942,312	838,945	(1,103,367)
Biennial BASE Aid Adjustment			\$ (2,235,155)

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SB 184 directed the Executive Budget to include the amount of reimbursement appropriation authority for the 2001 biennium in its present law budget for the 2003 biennium. Since reimbursements in fiscal 2000 were for a partial year only, 2001 biennium reimbursements equal only around 62 percent of a full two-years' worth of reimbursements. The Executive Budget's present law BASE aid request was calculated under the assumption that the legislature would authorize a full two years' worth of appropriation authority for reimbursement in the 2003 biennium. If the legislature authorizes reimbursements in an amount less than two years' worth, state GTB aid costs will increase by \$5.6 million during the biennium.

DP 2 - Timber Harvest/Technology - The Executive Budget is requesting general fund authority to spend the revenues earned from harvesting timber on state school lands. The 1995 legislature enacted HB 201, which designated that the revenues earned from timber harvests yielding in excess of 18 million board feet be used for district technology purchases. The funds are allocated to districts based upon the relative size of a district's BASE budget as compared to BASE budgets statewide. These revenues are deposited in the state general fund and "earmarked" for the technology program. Expenditures are limited to the amount deposited in the general fund. During the 2001 biennium, this appropriation was designated one-time-only. Revenues from this source are expected to be dramatically reduced during the 2003 biennium. The Executive Budget is requesting authority for \$450,000 in fiscal 2002 and \$744,000 in fiscal 2003, based on revenue estimates provided by the Department of Natural Resources and Conservation. In the past few years, revenues have been between \$1.0 million and \$3.5 million per year.

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Because of high volatility in timber revenue flows, the legislature may want to "de-earmark" these funds and set the amount of the school district technology appropriation independently of the amount generated by timber sales.

DP 3 - School Facility Payments current - School facility payments are made to schools to help them pay debt service on building bonds sold after July 1, 1991. The payments are made to low-wealth school districts and are based on statutorily-set entitlement amounts per ANB and a GTB formula. If the amount required is not sufficient to fund all eligible districts, the amount is prorated. During the 1999 session, HB 2 established school facility payments at \$3.5 million in fiscal 2000 and \$4 million in fiscal 2001. The amount spent in fiscal 2000 was less than the appropriation by \$140,441 because the prorated amount was 100 percent of the statutorily-set entitlement. The Executive Budget is requesting a present law adjustment of \$640,441 for each year of the 2003 biennium to bring the amount available up to fiscal 2001 levels. The Missoula High School District passed a new building bond issue in 1999 that will make use of the full \$4 million, with a pro-ration factor of less than 100%.

DP 4 - Transportation Aid - The Executive Budget is requesting a present law adjustment of \$200,000 in fiscal 2002 and \$300,000 in fiscal 2003. State payments have been growing slowly since fiscal 1996 as the result of reduced enrollment. The state transportation payment can increase in spite of falling enrollment due to:

- 1) increases in the number of buses;
- 2) increases in the number of eligible riders and in the number of bus routes; and
- 3) increases in the number of individual contracts.

The executive present law adjustment request is for anticipated increases in the formula-driven amount paid by the state, which is matched by county property taxes. No changes in the transportation aid formula are advocated, though OPI is considering legislation that would initiate such changes.

DP 5 - School District Audit Filing Fee - The Executive Budget requests an increase of 3 percent per year in school district audit filing fees to pay the Department of Commerce for the expenses it incurs when auditing school districts. Payment of this fee is required by Section 2-7-514(2), MCA; the Department of Commerce's fee schedule varies directly with school district revenues.

DP 9 - Biennial Appropriations - The Executive Budget requests adjustment to three programs - the instate treatment program, secondary vocational education program and the gifted and talented program. The requested adjustment would bring funding to exactly half of the historical biennial spending levels.

DP 13 - School to Work - Federal funds are decreasing for the School-to-Work Program. FY 2002 will be the last year for the program. The Executive Budget requests elimination of all authority.

DP 14 - Job Training Partnership Act (JTPA) - The JTPA was not reauthorized by Congress, but has become part of Title I of the Work Force Investment Act of 1998. OPI will no longer need spending authority for JTPA funds.

DP 15 - Federal Grant Awards - Anticipated increases in federal grants are listed in Table 6.

All of the grant awards are flow-through funds to be distributed to school districts. The amounts are estimated based upon the most recent federal appropriations bill. All ESEA (Elementary and Secondary Education Act) title grants award financial assistance on the basis of measures of low income and relative size of school, with the exception of Title III, which provides grants for the technology and literacy program on a competitive basis.

?? Title I includes financial assistance to districts so that the special education needs of educationally deprived children can be met. The act is targeted at districts with high concentrations of children coming from low-income families, and for children in local institutions for neglected and delinquent children.

?? Title II is the Eisenhower Professional Development Project. It provides funding to improve the skills of teachers by supporting professional development in mathematics and science, as well as other technical fields.

Table 6
Federal Grant Awards
Present Law Adjustment

Grant Title	Fiscal 2002	Fiscal 2003
ESEA - Title I	2,500,000	3,500,000
ESEA - Title II	500,000	500,000
ESEA Title VI	500,000	500,000
ESEA Title VII	6,000	6,000
IDEA	4,000,000	6,500,000
Homeless Children	75,000	75,000
Learn and Serve	30,000	30,000
School Foods Program	28,500	28,500
Total	\$ 7,639,500	\$ 11,139,500

- ?? Title VI is the Innovative Education Grant. It provides funding to ensure that homeless children and youths enroll in, attend, and achieve in school.
- ?? Title VII is the Immigrant Education Grant, which provides funding for immigrant children.
- ?? IDEA (Individuals with Disabilities Education Act) supports special education school improvement projects for students with disabilities. The grants provide assistance to districts and state agencies in support of meeting the training needs of personnel who work with students with disabilities.
- ?? Homeless Children Grants are competitive awards to districts for projects associated with identifying and educating homeless children.
- ?? The Learn and Serve Program provides competitive grants for creative partnerships between children and businesses, who together engage in community-action projects.
- ?? The School Foods Program provides funding for meals served to low-income children in every school district.

DP 23 - Reduce to anticipated drivers' license revenue - A portion of the revenue in this state special revenue account comes from drivers' license fees. Between fiscal 1997 and fiscal 2000, revenue from drivers' license fees was accelerated for 4 years due to the conversion from 4-year licenses to 8-year licenses. Because the revenue from drivers' licenses will return to levels similar to those observed before the change, the Executive Budget is requesting that expenditures in this account drop by the same amount, or \$250,000 in each year of the 2003 biennium.

New Proposals										
-----Fiscal 2002-----						-----Fiscal 2003-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1 - K-12 Base Aid increase										
09	0.00	0	0	0	0	0.00	14,439,914	0	0	14,439,914
DP 3 - School Facility Payments										
09	0.00	350,000	0	0	350,000	0.00	700,000	0	0	700,000
DP 8 - Adult Basic Education										
09	0.00	75,000	0	0	75,000	0.00	75,000	0	0	75,000
DP 16 - Comprehensive School Reform										
09	0.00	0	0	963,061	963,061	0.00	0	0	963,061	963,061
DP 17 - Reduced Class Size										
09	0.00	0	0	6,500,000	6,500,000	0.00	0	0	7,000,000	7,000,000
DP 19 - Advanced Placement Incentive Prog.										
09	0.00	0	0	194,900	194,900	0.00	0	0	238,600	238,600
DP 22 - Teacher Shortage/Teacher Salaries recommendations										
09	0.00	580,000	0	0	580,000	0.00	910,000	0	0	910,000
Total	0.00	\$1,005,000	\$0	\$7,657,961	\$8,662,961	0.00	\$16,124,914	\$0	\$8,201,661	\$24,326,575
					*					*

New Proposals

DP 1 - K-12 Base Aid increase - An increase of 3 percent in BASE Aid and Special Education funding for fiscal 2003 is made in the Executive Budget. Table 7 shows the BASE aid entitlements and components, BASE aid and special education spending, authorizations and the executive proposal for fiscal 2000 through fiscal 2003. The BASE aid special education proposal found in the Executive Budget would increase state aid by \$14.4 million above present law in the 2003 biennium.

Table 7 Entitlements, Base Aid and Special Education, Present Law and Proposed Law					
	FY2000 Actual	FY2001 Actual	FY2002 Present Law	FY2003 Present Law	FY2003 Proposed
Basic Entitlements					
Elementary	18,000	18,540	18,540	18,540	19,096
Percent Change		3.0%	0.0%	0.0%	3.0%
High School	<u>200,000</u>	<u>206,000</u>	<u>206,000</u>	<u>206,000</u>	<u>212,180</u>
Percent Change		3.0%	0.0%	0.0%	3.0%
Per ANB Entitlements					
Elementary	3,529	3,763	3,763	3,763	3,876
Percent Change		6.6%	0.0%	0.0%	3.0%
High School	<u>4,821</u>	<u>5,015</u>	<u>5,015</u>	<u>5,015</u>	<u>5,165</u>
Percent Change	0	4.0%	0.0%	0.0%	3.0%
Base Budget Components					
Direct State Aid	41.1%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	38.9%	35.3%	35.3%	35.3%	35.3%
Special Education	<u>33,879,457</u>	<u>33,920,243</u>	<u>33,899,850</u>	<u>33,899,850</u>	<u>34,916,846</u>
Percent Change		0.1%	-0.1%	0.0%	3.0%
BASE Aid	426,325,550	448,327,751	433,809,022	428,267,862	441,690,781
Percent Change		5.2%	-3.2%	-1.3%	3.1%
Proposed FY2003 BASE Aid & Special Education Increase					<u>\$ 14,439,914</u>

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The proposal made in the Executive Budget actually contains two proposals in one. The legislature could approve neither, either, or both of these proposals. If special education funding alone is increased by 3 percent, the fiscal 2003 increase in spending will be \$1,016,996 for special education, with an additional \$187,387 in added GTB for a total of \$1,204,383. Increasing only the BASE aid schedules would increase spending in fiscal 2003 by \$13,235,531.

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Because the October 2000 enrollments were below the estimates made by the Executive Budget, BASE aid costs associated with the proposed schedule increases will be slightly less than estimated. The table below shows the impact of lower ANB in fiscal 2003 on the Executive Budget request.

Table 8
Adjustment of Executive Proposed Law BASE
Aid Request due to Lower ANB

Fiscal Year	Executive Budget	Revised PL Request	Annual Change
2003	\$ 14,439,914	\$ 14,406,321	\$ (33,594)

DP 3 - School Facility Payments - An increase in school facility payments by \$350,000 in fiscal 2002 and by \$750,000 in fiscal 2003 is being proposed due to recent passage of a number of building bonds, the largest of which is in the Missoula High School District, passed in 1999. While the full appropriation for fiscal 2000 was under-spent by \$140,441, the increased eligibility of building bonds will reduce the amount available for other schools if the amount authorized for the 2003 biennium remains at the present law amount. No changes in the statutorily-set facility

entitlements per ANB have been proposed, although the Office of Public Instruction is considering other legislation that will do so.

DP 8 - Adult Basic Education - An increase of \$75,000 for each year of the 2003 biennium is being proposed. The program has had an annual allocation of \$250,000 throughout the 1990's. The Executive Budget cites the growing demand for adult basic education in rural areas as justification for the increase.

DP 16 - Comprehensive School Reform - Continuation of the federal Comprehensive School Reform Program at \$6.5 million in fiscal 2002 and \$7 million in fiscal 2003 is being proposed. The program funds school reform efforts to improve low-performing students and to provide technical assistance and curriculum development to school personnel. The 56th legislature designated the appropriation for these funds on a one-time-only basis in the 2001 biennium.

DP 17 - Reduced Class Size - Continued federal funding for this initiative is being proposed at \$963,061 for each year of the 2003 biennium. The program funds the hiring of additional teachers, aides and specialized personnel - primarily for grades K-3 - in order to reduce class sizes. The 56th legislature designated the appropriation for these funds as one-time-only in the 2001 biennium.

DP 19 - Advanced Placement Incentive Program. - The Office of Public Instruction (OPI) has applied to participate in the federally-funded Advanced Placement Incentive Program, which reimburses a major portion of the cost for low-income students to taking advanced placement (AP) tests in the spring of each year of the biennium. In addition, the OPI is forming a consortium with the Office of the Commissioner of Higher Education (OCHE) to build a permanent support system and to provide services that will enable low-income students to adequately prepare for challenging coursework in the higher grades, and which will encourage success in college. (For further discussion, see the preceding narrative in the OPI Administration Program.)

DP 22 - Teacher Shortage/Teacher Salaries recommendations - Partial implementation of the recommendations made by the Governor's Task Force on Teacher Shortages and Teacher Salaries is proposed. The task force's final report was published September 11, 2000, and five new programs requiring \$31.5 million in the 2003 biennium were recommended. The amount requested in the Executive Budget is \$580,000 in fiscal 2002 and \$910,000 in fiscal 2003; two of the task force recommendations are included. The recommendations endorsed include a loan repayment program for teachers (\$990,000 million for the biennium), and establishment of a statewide mentoring and induction program (\$500,000 for the biennium). Because the estimated 110 loan repayment recipients would be eligible for the proposed \$3,000 repayment for four years, the loan repayment program's costs would increase to \$990,000 in fiscal 2004 and \$1.32 million in fiscal 2005.

Funding a third recommendation in the OPI Administration program - \$150,000 for National Board Certification stipends - is also proposed. (For further discussion of these proposals, see the narrative in the OPI Administration Program.)

Language Recommendations

The following language changes in HB 2 are proposed:

"The office of public instruction may distribute funds from the appropriation in item [instate treatment] to public school districts for the purpose of providing educational costs of day-treatment services."

"Items [all general funds and all federal funds] are biennial appropriations."

"Item [Timber Harvest for Technology] is for school technology as provided in 20-9-534. The amount expended may not exceed the amount paid into the general fund under the provisions of 20-9-343(3)(a)(ii)."

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If the legislature authorizes spending for technology at an amount independent of timber harvest revenue, the third language recommendation will not be required.